

Line Well Agreements

When an offset well is close enough to a federal lease line that it could potentially drain oil or gas from the federal lease, the operator of the federal lease potentially being drained is required to ensure that no compensable drainage occurs without the BLM being properly reimbursed. One way to do this, usually when there is a common operator for both leases, is by approval of a **line well agreement** between the operator and the BLM. Line well agreements are used to allocate production from wells that are near a common lease line. Typically, the agreement comes in one of two forms. The first of these is when the entire production stream from all wells within a certain distance of the common lease line is allocated equally between the two leases, regardless of which lease the well is actually on. The second of type of line well agreement is normally used when there is an alternating pattern where there are more or less equal numbers of wells on each side of the common lease line. In each case, the agreement would be in lieu of drainage calculations for the affected area. It is important to note that both versions of line well agreements would be reviewed prior to approval to ensure that the federal share would not be reduced by the arrangement.